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Bank of Canada Raises Another 0.25% (25bps).

MANY NOW FORECASTING THAT WE'VE REACHED THE PEAK.

January 25th, 2023

Great Mortgages. The Right Insurance. Expert Advice.

Bank of Canada Raises Another 0.25% (25bps).

On January 25th, 2023, the Bank of Canada (BoC) increased its overnight rate by 0.25% (25 bps) lifting it to 4.50%. Lenders are expected to follow shortly by raising their Prime lending rates from 6.45% to 6.70%, which will be the highest level since March 2001.

The January 25th increase was in line with economists' expectations and caps off an unprecedented 11 months where the BoC implemented a total of 4.25% (425 bps) in rates hikes from March 2022 to January 2023. Click here to read the BoC press release.

Where do things go from here?

As at the time of writing, most economists are forecasting that we've reached the peak and the next move by the Bank of Canada could be downward starting very late 2023 or 2024.

In the remainder of this report, we provide additional details on the following:

- Why did the Bank of Canada raise by 0.25% (25 bps)?
- Why this could be the last increase by the Bank of Canada.
- How does the January rate hike impact existing mortgage holders, or those looking to buy and secure a new mortgage?
- Potential mortgage payment relief options for those significantly impacted by rising rates.

For any questions on this report, or for a customized analysis of your mortgage options given the current economic environment, please call or email at any time.

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Why did the BoC raise rates (in their words)?

While the full press release can be found here, in summary, the bank highlighted the following reasons for raising rates during their January 25th meeting:

- "Global inflation remains high and broad-based."
- "In Canada, recent economic growth has been stronger than expected and the economy remains in excess demand."
- "Labour markets are still tight: the unemployment rate is near historic lows and businesses are reporting ongoing difficulty finding workers."
- "Inflation has declined from 8.1% in June to 6.3% in December...short-term inflation expectations remain elevated."

Why the Bank of Canada may be done increasing rates (in their words):

In contrast to the hawkish points above, the Bank of Canada could very well be done increasing rates if the economy tracks in line with their most recent forecasts (click here for a copy of the BoC Monetary Policy Report). In their words:

- "There is growing evidence that restrictive monetary policy is slowing activity, especially household spending."
- "As the effects of interest rate increases continue to work through the economy, spending on consumer services and business investment are expected to slow. "
- "Inflation is projected to come down significantly this year."
- "Lower energy prices, improvements in global supply conditions, and the effects of higher interest rates on demand are expected to bring CPI inflation down to around 3% in the middle of this year and back to the 2% target in 2024."
- The "Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases."

The only caveat to this outlook? If the economy stays hotter for longer than forecasted. In such a scenario, the Bank of Canada does leave room for a possible future increase: the "Governing Council is prepared to increase the policy rate...if needed...to return inflation to the 2% target".

Only time will tell if we have indeed reached the peak, but as at the time of writing, most economists believe the next move by the BoC will be downward starting in very late 2023 or 2024. In fact, the big 6 banks are generally forecasting that the overnight rate will drop to the 3.00% range by the end of 2024 (a 1.50% drop from the current 4.50%).

BoC Forward Guidance

The "Governing Council expects to hold the policy rate at is current level while it assesses the impact of the cumulative interest rate increases."

- Bank of Canada (January 25, 2023)

What could the most recent change mean for you?

While the Outline Financial team is on standby to discuss how these changes may impact your specific circumstances, we have included a few scenarios below that cover our most frequently asked questions from existing mortgage holders as well as those looking to secure a mortgage.

Scenario 1: I currently have a variable "non-adjustable" mortgage (VRM), how will this impact me?

- In this scenario, your mortgage payment will remain the same, however, a higher proportion of each payment will go towards paying interest vs. principal. The net impact is an extended amortization (total amount of time to pay off your mortgage will be longer).
- What can you do? As the variable rate remains below fixed rates, you could keep everything the same and continue with the same monthly payment. Alternatively, you could increase your mortgage payment to ensure you remain on pace with (or close to) your current amortization schedule.
- Be aware of your Trigger Rate / Trigger Point. As interest rates rise, there may be a point where your set VRM payment can no longer cover the interest calculated (and charged) on the outstanding mortgage amount. This is known as the Trigger Rate. In this scenario, your mortgage may have an increasing balance unless the payment is increased enough to cover the outstanding interest.
- For questions on your payment strategy, trigger rate, trigger point, or to review potential pros/cons of converting your current VRM into a fixed mortgage, please reach out at any time.
- Note: If you were impacted by the trigger point, and are struggling to keep up with your payments, please refer to the payment relief section at the end of this report for possible mortgage payment relief options.

Scenario 2: I currently have a variable "adjustable" mortgage (ARM), how will this impact me?

- In this scenario, your mortgage payment will automatically increase to ensure you keep pace with your current amortization schedule. If you would like to discuss future interest rate projections, or the potential pros/cons of converting your ARM into a fixed mortgage, please reach out at any time.
- If you are struggling to keep up with your payments, please refer to the payment relief section at the end of this report for possible mortgage payment relief options.

Bank of Canada - 2022/2023 Rate Changes

BoC Meeting Date	BoC Rate Change	Overnight Rate (BoC)	Prime Rate
Jan 26, 2022	*no chg.*	0.25%	2.45%
Mar 2, 2022	+ 0.25%	0.50%	2.70%
Apr 13, 2022	+ 0.50%	1.00%	3.20%
Jun 1, 2022	+ 0.50%	1.50%	3.70%
Jul 13, 2022	+ 1.00%	2.50%	4.70%
Sep 7, 2022	+ 0.75%	3.25%	5.45%
Oct 26, 2022	+ 0.50%	3.75%	5.95%
Dec 7, 2022	+ 0.50%	4.25%	6.45%
Jan 25, 2023	**+ 0.25%**	**4.50%**	**6.70%**

Scenario 3: I currently have a fixed-rate mortgage, does the recent change impact me?

- If you have a fixed-rate mortgage, there is no impact on your mortgage payment (or amortization) as you have received a guaranteed rate for the duration of your mortgage term. Only when your mortgage comes up for renewal, or if you sold and purchased a new home, would you potentially be impacted by higher rates.

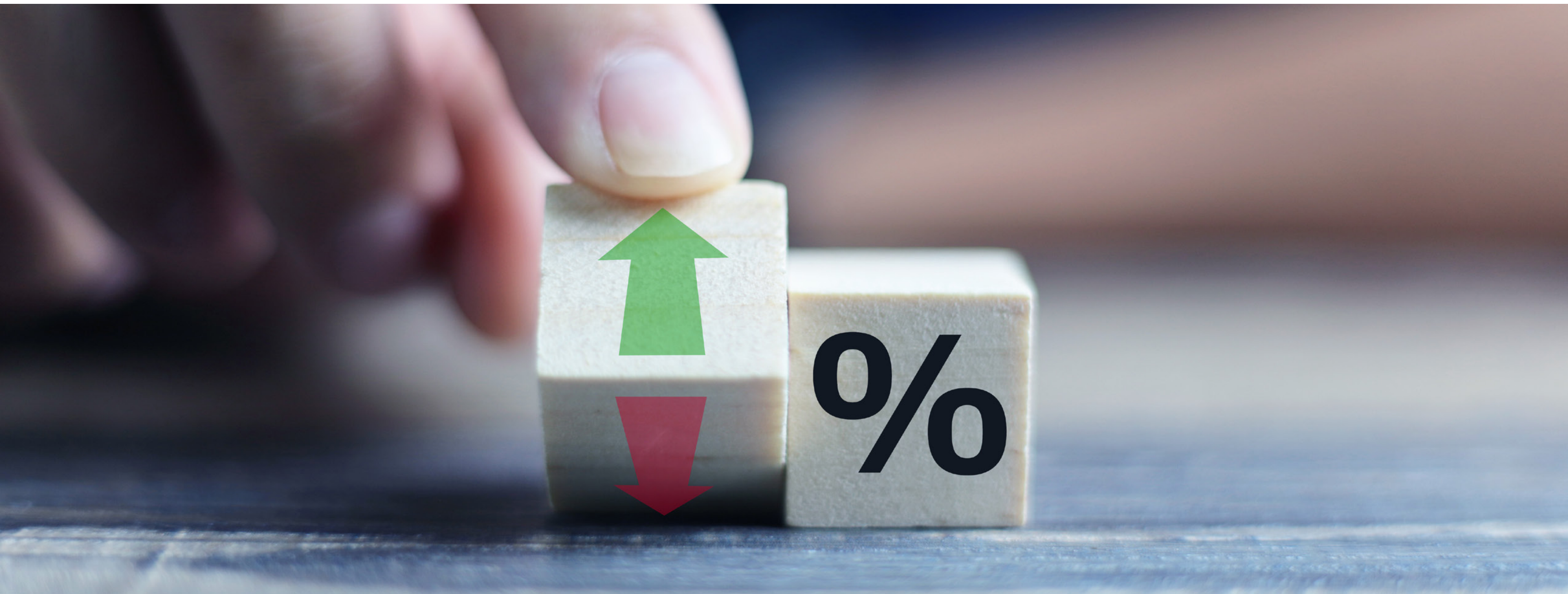
Scenario 4: I am currently looking to secure a new mortgage, a pre-approval, or refinance an existing mortgage.

- Fixed or Variable? While each circumstance is unique, there are a couple of key points that you will want to keep in mind if trying to decide between the two.

- Variable rate mortgages are directly impacted by the Bank of Canada as described in Scenario 1 and 2 above and your interest costs will move up or down based on the BoC rate decisions making them more volatile. However, variable rate mortgages are generally more flexible than fixed rate mortgages in terms of penalties if you ever need to break your mortgage.

- 5-year fixed mortgage rates typically follow the Government of Canada 5-year Bond Yields which is the market's view/prediction of where interest rates will be in the future. The 5-year bond yields actually started moving upward back in early 2021 in anticipation of the Bank of Canada rate increase(s) that we've seen during 2022 and early 2023. After rising to peak levels in October 2022, bond yields have retreated somewhat as a 2023 recession becomes more likely. Lenders are starting to pass along some of this reduction, and we do anticipate 5-year fixed rates to soften even further in the coming weeks if bond yields remain at current levels or potentially drop further.

- 2, 3, and 4 year fixed mortgages can be a great option. As many economists believe our economy could turn recessionary in 2023 (resulting in lower interest rates), many clients are opting for shorter term fixed rates given the potential for 5 year fixed and variable rates to be significantly lower at time of renewal. Please contact and Outline Financial mortgage agent and we can run through the pro's/con's and numbers with you.

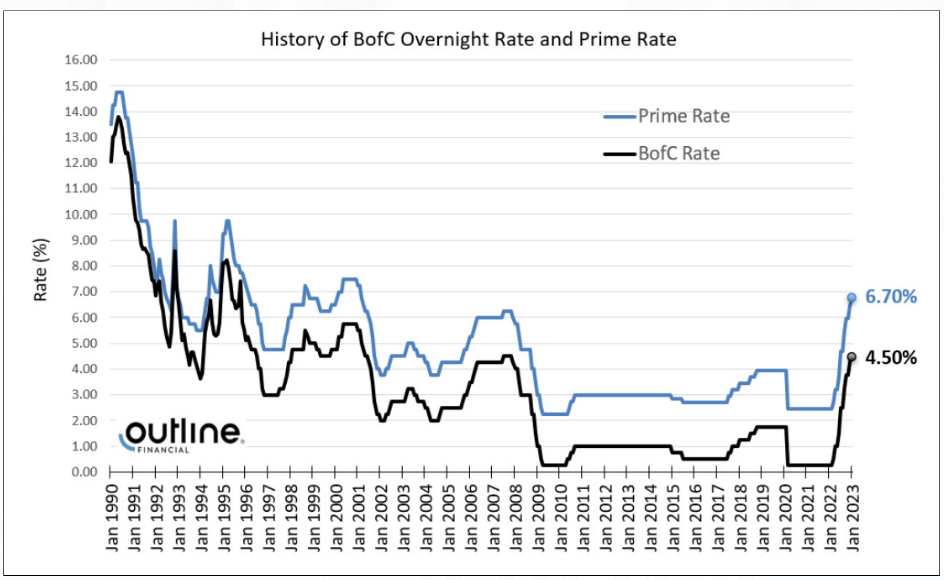


Important Reminder: Stress Test & Variable Rate Pre-Approvals

- Stress Test Reminder: To help ensure clients can absorb interest rate shocks, all banks and federally regulated lenders are required to qualify clients' based on a "Stress Test" interest rate set at the greater of 5.25% or the clients' actual mortgage rate +2.00%.

- Why does this matter? After the recent Bank of Canada increase, the stress test rate has increased for variable rate mortgages, which will reduce a clients' borrowing/purchasing power (rule of thumb: each 0.5% increase in the stress test rate is equivalent to an approx. 4% reduction in borrowing/purchasing power). If you have an existing variable rate pre-approval, or would like to secure a pre-approval, please contact a member of the Outline Financial team, so we can help quantify the impact of this change.

- Options: as a mortgage broker, in additional federally regulated banks, we also have many options from Provincially regulated Credit Unions. Credit Unions are not subject to the same Stress Test requirements as the Banks and can often offer competitive rates with more flexible qualifying terms.



Possible Mortgage Payment Relief Options

In general, if a borrower is concerned that they will miss one or more mortgage payments, it is important they take action right away, and BEFORE they miss their payment(s). Ultimately, lenders/banks don't want their clients to default, and they are often very willing to work out a custom solution to try and help. This is very true in the current environment, where interest rates have risen at an unprecedented pace.

What follows is a list of potential payment relief options that may be available:

- Requesting a payment pause from the lender/bank. These payment deferrals may be available, but will vary from bank to bank. It is important to talk to the lender/bank before a missed payment, as that could severely limit the available options.

- Request an amortization extension. By extending the mortgage amortization, you are spreading out the time it will take to pay off the mortgage, thereby reducing the monthly payments.

- Consider a debt restructure or consolidation. There may be options to consolidate or restructure existing mortgage and/or non-mortgage loans into an overall lower cost of borrowing.

- Combination products (combined mortgage and line of credit products). These products may provide some short-term payment relief, as you can draw from the line of credit to make the monthly mortgage payment. Some products can be set up to do this automatically.

- Reverse mortgages. Reverse mortgages have specific qualifying criteria, but require no ongoing payments. Instead, the monthly interest costs are added to the mortgage amount, which grows over time.

For a customized analysis of which rate or product option might be right for you, or to discuss potential payment relief measures that may be available, please reach out at any time as we are always on standby to help.

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Outline Financial is an award-winning mortgage brokerage offering direct access to rate and product options from over 30 lenders including banks, credit unions, and mono-line lenders all in one convenient service. The Outline team was formed by senior level bankers and financial planners that wanted to offer their clients strategy and choice with an exceptional service experience. To learn more about the team, please visit www.outline.ca or watch a quick video at www.outline.ca/welcome.

Outline Financial Accolades:

- 5-Star Google Rating – 300+ Reviews
- 2021 CMP Top Canadian Mortgage Workplace
- 2021 Mortgage Brokerage of the Year – Canadian Mortgage Awards (CMA) Winner
- 2020 Mortgage Brokerage of the Year – Canadian Mortgage Awards (CMA) Winner
- 2019, 2021 Outstanding Customer Service Award – CMA Finalist
- 2019 Employer of Choice Award – CMA Finalist
- Top 75 Brokerages in Canada – 2018, 2019, 2020, 2021

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